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Development of the Transportation Systems in the United States.

By J. L. RINGWALT, Editor of the *Railway World*. Philadelphia, Railway World Office, 1888. — Fol., 398 pp.

The Railway Problem. With many Illustrative Diagrams. By

A. B. STICKNEY. St. Paul, D. D. Merrill Co., 1891. — 8vo, 249 pp.

The Corporation Problem. By WILLIAM N. COOK. New York,

G. P. Putnam's Sons, 1891. — 8vo, 262 pp.

The Railways and the Traders. A Sketch of the Railway

Rates Question in Theory and Practice. By N. M. ACWORTH. London, Murray, 1891. — 8vo, 378 pp.

Transports et Tarifs. Précis du Régime, Lois Economiques de

la Détermination des Prix de Transport, Tarifs de Chemins de Fer, etc. Par G. COLSON, Ingénieur des Ponts et Chaussées. Paris, Rothschild, 1890. — 8vo, 479 pp.

Theorie der Tarifbildung der Eisenbahnen. Von W. LAUN-

HARDT, Professor an der Technischen Hochschule zu Hannover. Berlin, Julius Springer, 1890. — 8vo, 84 pp.

Since the last review of railway literature in the *POLITICAL SCIENCE QUARTERLY* for March, 1890, a number of interesting books have appeared. A slight sketch of those most important for the student of railway economics may serve to throw some light on the questions still at issue.

Ringwalt's *Development of the Transportation Systems* is a huge encyclopædic work containing all sorts of ill-digested but often valuable information on nearly every topic of water and rail transportation. It does not pretend to be a scientific work, and many of its chapters are neither exhaustive nor logically arranged. Scarcely any references are given. But with all its shortcomings, the list of which might be greatly extended, it is a work of ready reference which contains a great many curious facts more or less difficult of access. It will considerably lighten the labor of the future historian of American commerce and industry.

The work of Mr. Stickney on *The Railway Problem* is remarkable for the fact that, although written by the president of an important American railway system, it forms the most serious indictment ever brought against American railway practice. It is the work of a man who cries "*Peccavi!*" but who has now become thoroughly frightened at the consequences of his own acts, and wants to be protected against his competitors. In other words, after describing the countless abuses of American railways so exhaustively that we cannot resist the con-

viction that Mr. Stickney speaks out of the fulness of his knowledge as *particeps criminis*, he concludes that the only remedy is a fixing of rates through the national legislature or commission, with a temporary assumption of the line by a government officer whenever the law shall be infringed. The reader will search the book in vain for any acquaintance with theoretic literature, but he will find a mass of interesting facts. Mr. Stickney's temper may be inferred from the following quotations: "The truth is, it is not the 'Granger laws' nor the Interstate law nor the act of commissions which has reduced rates to the present unprofitable level, but the mismanagement of the companies" (page 86). "The 'Granger laws' have served the purpose of a 'bloody shirt' to conceal incompetence in railway management" (page 121). "Railway companies and stock exchanges, when illegitimately used, constitute the most perfect machinery for the purpose of legalizing robbery that the human intellect is capable of devising" (page 202). It may be seriously doubted whether Mr. Stickney's book will be of any aid in the practical solution of the railway problem; while it is certainly of no help in the question of theory. If its object is to increase the popular resentment against American railway management, the object will doubtless be effected. It is a remarkable work to come from an advocate of the railway interest.

In *The Corporation Problem* Mr. Cook has made an earnest attempt to grapple with a difficult subject. He lately published a work on the law of corporations, and now he attempts to discuss their economic phases. But Mr. Cook is not so good an economist as he is a lawyer. A really good economic work on corporations would have to deal fully with a great many questions which the author does not even mention. His treatment is confined mainly to railroads and trusts, and the work is in great part composed of quotations from other writers. His discussion of the railway problem is popular, and skims lightly over a great many important points; his treatment of taxation of railroads is very superficial, and his conclusion that the only remedy is concentration and consolidation cannot be said to be profound, when we recollect that some of the worst abuses in our American system are found in California, where there is practically a huge monopoly. Equally unsatisfactory is Mr. Cook's treatment of trusts. He does not attempt to give any economic analysis of their causes and results; he seems to imply that trusts are simply a passing phenomenon (page 236), and to share the belief that they are the creation of the protective tariff (page 240), and he does not seem to recognize the fact that we may prohibit, but cannot prevent, these huge combinations, whatever name or form they assume. The "corporation problem" is one to test the best energies of the ablest economists; an amateur economist, however well-meaning or

however well trained in other departments of learning, is not apt to solve it successfully.

It is a matter of serious regret that Mr. Acworth's *Railways and the Traders* should have been written, as he himself states, on behalf of the English Railway Companies Association. This fact prejudices all readers from the outset; but needlessly, because the work is in many respects an admirable one, and because Mr. Acworth had reached his conclusions independently of any railway connection. Mr. Acworth has been much influenced by Professor Hadley's work, and his book is constructed on much the same lines and with much the same arguments. The portion relating to America brings nothing new, but the chapters devoted to England contain many interesting points. Mr. Acworth is justly a vigorous opponent of the doctrine of competition in rates—what he calls the American system; but it is significant that he upholds the doctrine of competition in facilities. We cannot have, says he, the advantages both of competition and monopoly; and he is an earnest advocate of the English competition in facilities as against the continental system of monopoly. It is perhaps doubtful whether Mr. Acworth does not overstate his case. It is very uncertain whether in this country the one kind of competition would not necessarily lead to the other. Mr. Acworth makes the usual mistake of ascribing undue importance to the report of the Italian commission in the eighties, when all experts know that the commission was packed, and that its conclusions were assured from the outset. And in treating of facilities, Mr. Acworth forgets that the fastest regular express train in the world was, until the recent introduction of the Empire State Express on the New York Central, the train from Hamburg to Berlin on the Prussian system of state railways. And although there is a certain element of truth in Mr. Acworth's contention that a railway company is only a shopkeeper on a large scale, who ought to be left alone, it is only half the truth; for the railway has a public function which the shopkeeper has not. While there is no doubt that Mr. Acworth seems to hold a brief for the railways, yet on the whole he makes good his contention against governmental fixing of rates and against bungling legislative interference. His book can be confidently recommended as, on the whole, the best presentation of the railway situation in England that has yet appeared. But it would have more influence if it were not such an unconditional plea for *laissez faire*.

In his *Transports et Tarifs* M. Colson sums up very judiciously the history and the economic laws of rail and water transportation. Many of his theoretical and mathematical investigations are based on the conclusions of Dupuit. His whole book may be said to be a lucid and thorough application of the principle of charging what the traffic will

bear to all the ramifications of actual tariffs, which he often attempts to explain rather than to justify. Although intended primarily for Frenchmen, it will be of interest to all economists on account of his efforts to show that the theory of rates is simply a part of the greater whole.

Very much the same may be said of Launhardt's *Theorie der Tarifbildung*. In his recent work on mathematical economics Launhardt had much to say of the new theory of value and its application to transportation. In the present monograph he expands his discussion, and adds a formidable array of diagrams. He discusses the theory of rates from the public and from the private standpoint — the latter being that which conforms to the doctrine of maximum monopoly profits. His discussion of the various conditions under which a commodity may be transported is interesting, but would lead us too far astray. His conclusion is that the ideal tariff, according to the principle of greatest profits, is a system of high terminal charges, with a scale of gradually decreasing tolls for transport. This he thinks is the logical conclusion from the principle of value of service. He attempts to apply it to fares as well as to rates. While his conclusion is of doubtful value, his methods are exceedingly interesting.

The most important point for the student in all these works is the discussion of the principle of railroad rates. It is significant that all three of the works — Acworth, Colson and Launhardt — accept the doctrine of value of service, although at least one of them (Acworth, page 8) is acquainted with Professor Taussig's recent attempt to put forth the principle of joint cost as the explanation. And this is perhaps the most convenient place for saying a few words about Professor Taussig's theory.

The theory of joint cost, applied to railways, seems to me partly a truism, partly a fallacy. It is of course an undoubted fact that in all competitive enterprises the price charged is fixed in the long run by the cost of production of all the products taken together, and that what is lost in one by-product must be made good in another. No one, so far as I know, has ever denied this, and it has been put forth time and time again as an answer to those who claim that every particular railway charge should be fixed by the particular cost of service. If that is called the theory of joint cost, it is a truism. But the attempt to make this the chief explanation of railway rates is erroneous, for the reason to which Professor Taussig himself alludes in passing. Prices are fixed by cost of production, or by joint cost, only when the products are competitive products. There is always a marginal producer who fixes the price, and who sells without profit. But in monopolies there is no marginal producer; there is no necessary conformity of price to cost at all. Prices may be continually above cost, the difference being the

monopoly profits. Price in such cases is fixed by the principle of monopoly maximum returns, which is nothing but charging what the consumer can afford to pay. The charges in each monopoly by-product will be put at the highest price consistent with greatest sales or profits, utterly irrespective of cost of production. Now a railroad is a monopoly; competition in charges is in the long run impossible. Railway charges therefore are not fixed by any principle of cost of production, but by the principle of monopoly profits, *i.e.* charging what the traffic will bear. The analogy to taxation, or the element of value of service, or ability to bear, comes in as in the case of all monopolies of necessities of life. Taxation is compulsory, but payment for a monopoly of a necessity of life (like railroad charges in our present stage of civilization) is in one sense equally compulsory. The principle of charging what the consumer can pay (or what the traffic will bear) in any monopoly necessarily has reference to his ability to pay. The monopolist indeed does not care for justice or any ethical considerations, but the price that he charges is necessarily fixed by what the purchaser can afford to pay. Justice in taxation requires that a man shall pay in some proportion to what he can afford; the fixing of monopoly price depends on what he thinks he can afford. At bottom there is a real analogy between the cases. And this is the reason why at all times and in all countries government steps in to supervise in some way the fixing of monopoly price, when the monopoly product is a necessity of life.

Professor Taussig objects to the words "value of service" as an explanation of railway rates, and says that they cannot mean value in use, or intrinsic utility, because then grain and coal would be charged more than silks and spices. This is simply the old fallacy of saying that value cannot depend on utility, because water has far higher utility than diamonds. An acquaintance with the modern Jevonian or Austrian theory of value, as dependent on marginal utility, should have preserved Professor Taussig from this self-evident error. When we say that railway rates are fixed by value of service, we mean that the marginal utility of the service is definitely estimated by the public or the shipper; that if the rate exceeds this definite estimate the commodity will not be sent; and that a different estimate may be put on each different shipment or commodity. The value of the service, or the marginal utility of the service, fixes the price of all commodities; but it is only in the case of competitive production that this is equivalent to cost of production, or joint cost. Thus in reality Professor Taussig does not get to the bottom of the matter. Railway prices are simply a small part of the general law of value, as it has been most recently explained by economic theory. Marginal utility is the basic explana-

tion; cost of production is a minor variation of marginal utility in the case of continuous, competitive production. Translated into railway language, railway charges are fixed in general by value of service; only in so far as there is competition will charges in the long run conform to general cost of production; but even here each individual charge must still be fixed by value of service.

Thus the theory of joint cost, in so far as it is true at all, is simply a subordinate explanation of a more general rule; and in so far as the railroad is a monopoly, the theory becomes less and less true. The entire dispute will easily be avoided as soon as it is once recognized that cost of service, or joint cost, is simply a variation of value of service; and that the theory of final utility (which is nothing but value of service) is the fundamental explanation of all price.

EDWIN R. A. SELIGMAN.

Il Socialismo Cattolico. Studi sul Socialismo Contemporaneo.

Di FRANCESCO S. NITTI. Seconda Editione, Ampliata con l' Enciclica di Leone XIII sulla Questione Sociale. Torino-Roma, L. Roux e Co., 1891.—8vo, 417 pp.

Several months ago Signor Nitti, a young university student, fairly startled the Italian public by a work written on a burning subject in a most pellucid and enthusiastic style. It was not many weeks before the first edition was exhausted and the present second edition published. Signor Nitti has set himself the task of studying all the phases of modern socialism in a purely objective way and with a fulness that has not yet been attempted. In the present volume he devotes himself exclusively to Catholic socialism, of which he has given us a remarkably interesting and extended account.

Signor Nitti is not a socialist, although he has many a sympathetic word to offer to the advocates of Catholic socialism. But he seems not to be a very profound economist, and his criticisms, of which there are not many, are sometimes lacking in acuteness and depth. He does not always seem to have grasped the fundamental point of modern industrial society or to have discovered the real weakness of socialism. He often mistakes sentimentalism for economics; he is content with the heart running away with the head. But if he is not a profound economist, he is an earnest Catholic. While he may be said to preserve a certain balance between socialism and liberty, he cannot be accused of undue partiality for any religious movement outside of Catholicism. Religion is to him Catholicism. The unconscious opposition to every other phase of religious thought tinges his whole exposition. The results are often one-sided.